DAIFUKU

Material Handling **and Beyond**

ANNUAL REPORT 2010

Year ended March 31, 2010

Material Handling and Beyond

Anticipating changes in the business environment to continually evolve the material handling industry into the future

Daifuku formulated a new three-year business plan, *Material Handling and Beyond*, that has been in effect since April 2010 and targets consolidated net sales of 220 billion yen, operating income of 11 billion yen and an operating income margin of 5% for fiscal 2012, the year ending March 31, 2013. Looking five years ahead, to the end of fiscal 2014, Daifuku is aiming for net sales of 250 billion yen, operating income of 25 billion yen and an operating income margin of 10%.

By tackling as a priority five new “Beyond” areas, Daifuku plans to create new products, markets and businesses while strengthening material handling as its core business.

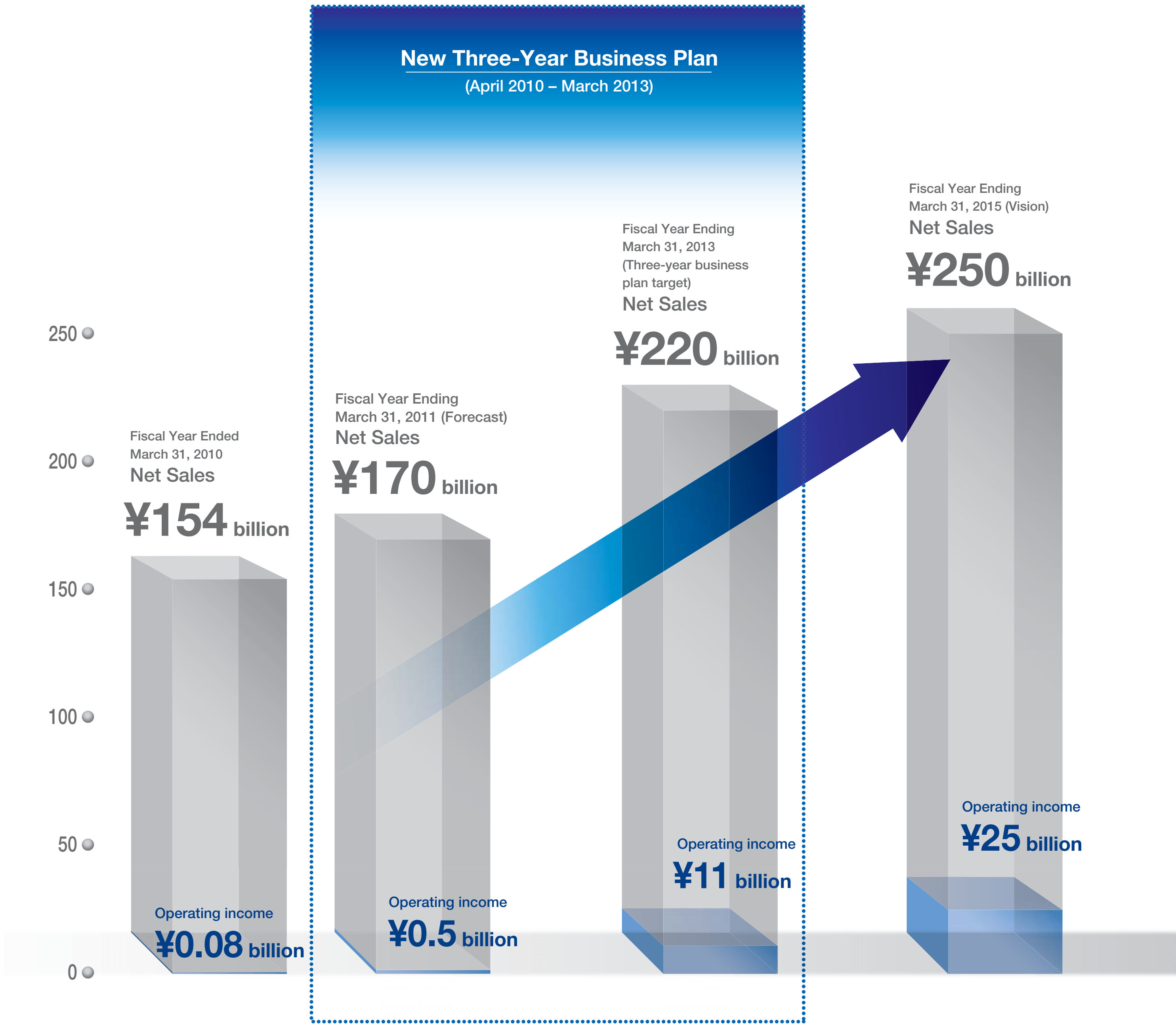
Beyond 1. Enter New Markets
Open up new material handling markets in expanding fields

Beyond 2. Create New Products and Systems
Develop products and systems for sale in emerging markets

Beyond 3. Develop New Production Methods
Work to expand production by means of global affiliates, promote optimized local production

Beyond 4. Build New Global Partnerships
Work to expand areas of business by building partnerships with global companies

Beyond 5. Launch New Businesses
Develop new businesses in which material handling technologies can be applied



Cautionary Statement with Respect to Forward-Looking Statements
The strategies, beliefs and plans related to future business performance as described in this annual report are not established facts. They are business prospects based on the assumptions and beliefs of the management team judging from the most current information, and, therefore, these prospects are subject to potential risks and uncertainties. Due to various crucial factors, actual results may differ substantially from these forward-looking statements. These crucial factors that may adversely affect performance include: 1) consumer trends and economic conditions in the Company's operating environment; 2) the effect of yen exchange rates on sales, assets and liabilities denominated in U.S. dollars and other currencies; and 3) the tightening of laws and regulations regarding safety and other matters that may lead to higher costs or sales restrictions. Moreover, there are other factors that may adversely affect the Company's performance.

Factory Automation & Distribution Automation (FA&DA)

When the FA&DA business began, its customers were in secondary industries such as manufacturing. Today, its operations have expanded into tertiary industries that include distribution and retail, and the Company is focusing on three new markets in particular.

The first of these is the currently booming market for solar cells and lithium-ion batteries. As it works steadily to improve its delivery record, the FA&DA business is aiming to capture the top share of the Japanese market within the next few years.

The second is the agricultural market. Many automated warehouse systems are already in use in this industry, including automated equipment for growing mushrooms in factories (top photo). Expectations are that there will be an increasing number of vegetable processing plants established close to points of consumption. Furthermore, along with rising consumer demand for safe and worry-free agricultural products, backed up by advanced freshness and quality controls, there will be an increasing demand for distribution centers possessing such state-of-the-art functions as load grouping.

Third is the non-Japanese market. Some 80% of our FA&DA business is in the Japanese market, so there is plenty of room to expand overseas. Daifuku plans are in place to clarify the roles played by local affiliates and Daifuku operations in Japan as well as to strengthen cooperative efforts.

Automotive Factory Automation (AFA)

It has been announced that a Japanese automaker's factory in Brazil and another in Mississippi in the United States, where plans had been put on hold, are to restart operations in 2011. In Japan, automakers have announced the partial resumption of factory construction, and are planning new factories in the United States, China and Brazil. Much is also expected of India as a market.

As deliveries will thus increasingly become overseas oriented, Japanese automakers will be more clearly defining the roles of their Japanese and local production subsidiaries in the search for optimal production methods.

The watchwords of the automobile industry are S (Simple), S (Slim), C (Compact), to which LC (Low Cost) is now an added necessity. Rather than developing completely new, groundbreaking products, the auto industry is promoting development focusing on how existing products can be given a makeover and costs kept down.

In addition, the shift to hybrid automobiles, which switch between a gasoline engine and stored electric motive power, as well as cars powered solely by electric power has brought major changes in car design and is encouraging new product development. Daifuku's main product, the slim and simple FDS® (Flexible Drive System) chainless conveyor system, was designed giving due consideration to weight and cost reductions. As demands for such environmental protection measures as those calling for low energy consumption and reduced CO_2 emissions become ever stronger, Daifuku is enterprisingly working on the development of high-efficiency inductive power distribution (HID) systems and an Eco Power Reuse storage system.

e-Factory Automation (eFA)

How it responds to the developing Chinese market will determine the success of the eFA business.

It is anticipated that by 2012 China will be the world's largest market for LCD TVs. The emergence of flat-panel display (FPD) makers in China as well as planned market entries by South Korean and Taiwanese FPD manufacturers are advancing. Furthermore, a pickup in flat-screen TV production will create demand for embedded semiconductors. This will not only give rise to new local makers, but it will also prompt Taiwanese and South Korean semiconductor manufacturers to accelerate their penetration of the Chinese market. In addition, the Chinese market for FPDs increased from last year, and Daifuku is working to secure a top share even as it strives to gain a solid share of the semiconductor market.

For the foreseeable future, Daifuku's production in China will mainly be geared toward the FPD market and centered on Daifuku (China) Co., Ltd., which commenced operations in April 2010. As the company is located on the outskirts of Shanghai, it will be developing partnerships in various regions to ensure full-country coverage.

Furthermore, the semiconductor market is continuing to rapidly recover, thanks to the burgeoning sales of such electronic devices as mini-laptops, smartphones and the iPad™. Outside Japan, semiconductor production lagged behind that of LCDs, but Daifuku's global competitiveness is set to rise by means of affiliates in South Korea and Taiwan.

Airport Baggage Handling (ABH)

Up until now, Daifuku's U.S.-based affiliate, Jervis B. Webb Company ("Webb"), has been developing this business primarily in the North American market. Business expansion will necessitate entering those global markets that are gaining in prominence, mainly China, India and elsewhere in Asia through to the Middle East.

In North America, the systems that are utilized for airport baggage handling are primarily conveyors. With lengths proportional to the size of the airport and the number of terminals, these conveyor systems can extend for more than five kilometers. Webb-View®, which is equipped with a sophisticated control system that tracks every bag, and scanning systems compliant with the stringent standards mandated by both the U.S. Transportation Security Administration and the Canadian Air Transport Security Authority, are just two examples of how Webb has set itself apart from other companies in terms of control and security products, and it has received high acclaim for its project performance.

In the meantime, focusing on demand in the Asian region, Daifuku will harness Webb's technical capabilities to ensure synergies from both the development and sales standpoints.

In addition, Daifuku will expand the scope of this business beyond baggage handling to, for example, automated warehouses for airline components, where the Company already has a proven installation record.

Lifestyle Products (LSP)

The Japanese market for our mainstay car wash machine business is shrinking due to a reduction in the number of gas stations. Daifuku is entering a period of full-scale penetration and expansion into the Chinese and South Korean markets. Global cost-competitiveness will be raised by utilizing its production base in China. In addition, environmentally conscious versions that offer great reductions in the amount of water used will cause Daifuku's dominant car wash machine lineup to stand out from its competitors.

On the other hand, Daifuku is planning for a surge in demand for car wash machines in Japan. Some people have been avoiding the use of car wash machines up until now, citing such reasons as unfamiliarity with how to operate them or because the machines make them feel uneasy. In response, Daifuku has launched its Smile Fill System (top photo), a novel car wash remote control panel for configuring the machine.

From the sales aspect, a car wash machine affiliate and another that sells bowling equipment were merged with the material handling equipment rental division in April 2009. Bringing together businesses that handle products with which consumers come into close contact, this move will also raise customer satisfaction and sales capabilities.

Besides performance achievements in South Korea that date back to the previous fiscal year, the rotary-type Cycle House 21 multi-level bicycle parking system (bottom photo), which is used near train stations to counteract the illegal parking of bicycles, is generating an increasing number of inquiries in Japan. These facilities will meet the steady needs of predominantly urban areas.

Electronics

In the Electronics segment, Daifuku undertakes fundamental structural reform, from sales to technologies, production and the aftermarket service.

Besides launching onto the market such new products as compact, power-saving box computers (photo) and computers for inspection and measurement systems, Daifuku is gaining new customers through proposal-based marketing and issue-resolution services that are beginning to yield steady results.

In addition, Daifuku will maintain an unwavering focus on two main fields. In the field of photovoltaics, where significant growth is expected, that focus will be on systems equipped with an easy-to-understand measurement and display function that uses a graphic format to present such data as real-time power output and results by day, month and year. In the digital signage field, the focus will be on expanding sales of industrial computers that feed video to displays.

China: Major Consumer Nation, Daifuku's Major Market outside Japan

Anticipated to become an economic powerhouse ranked second in the world in terms of GDP in 2010, China is expected to invest in certain industry sectors. In addition, the country represents a huge market with hidden potential business opportunities for material handling equipment.

Recognizing China as its principal market outside Japan, Daifuku has revamped its Chinese affiliates to expand the Group's business there and has been working to strengthen local production and procurement.

Objectives of Revamping Chinese Affiliates

- Sales, aftermarket service: Improve awareness of the Daifuku brand
- Production: Enhance competitiveness by increasing production ratio, strengthening cross-sectional procurement functions, etc.
- Management: More flexible financial management, improve business efficiency

Daifuku's presence in China dates back to 1983, when it received its first project order for an automated warehouse and automatic guided vehicles, which were delivered to the outskirts of Shanghai the following year. In 2002, Daifuku (Shanghai) Ltd. was established, specialist local sales and production subsidiaries subsequently being set up in other Chinese regions.

In April 2010, Daifuku launched a new system centered on its new subsidiary, Daifuku (China) Co., Ltd. ("Daifuku China"), which is developing comprehensive sales, manufacturing and service systems that will operate in 15 regions, including those where an office will be opened soon.

The efficient promotion of marketing activities will lead to improved awareness of the Daifuku brand. Daifuku has integrated its production subsidiary under Daifuku China's banner, strengthening essential price competitiveness, particularly in China. In fiscal 2009, orders primarily related to food and pharmaceutical products as well as flat-panel displays (FPDs) showed great improvement over initial forecasts.

Marketing activities aimed at competing directly against a top-ranked Chinese company served to raise awareness of the Daifuku brand. Furthermore, the construction of FPD factories is being rapidly promoted and, for automobiles as well, last year China became the world's largest market in terms of number of vehicles sold. It is anticipated that demand for car wash machines will expand due to the rise in personal automobile ownership.

Under the three-year business plan, *Material Handling and Beyond*, which started in April 2010, Daifuku set a target for consolidated net sales in China of 15 billion yen by the end of March 2013. However, the Company expects to achieve this figure in the current fiscal year, well ahead of schedule.

Daifuku's production plant in Shanghai

Daifuku (China) Co., Ltd.

Headquarters	Changning, Shanghai
Chairman	Katsutoshi Fujiki Managing Director of Daifuku Co., Ltd., in charge of China's Affiliate Management
Capital	1.5 billion yen
Employees	220 (approximately 600 after reorganization)
Main bases	Shanghai, Beijing, Tianjin, Guangzhou, Chongqing, Fuzhou, Wuhan, Suzhou, and Shenzhen

Contents

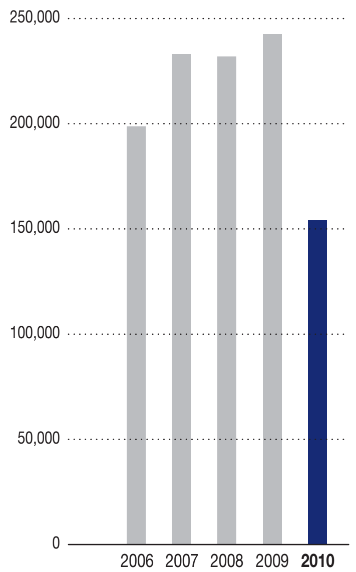
Financial Highlights

Daifuku Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2010 and 2009

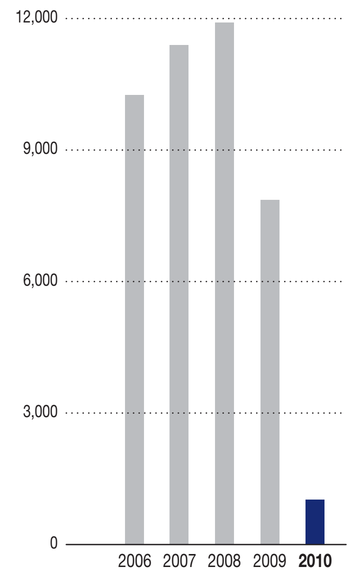
	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
For the Year			
Orders received	**¥ 133,211**	¥ 212,017	**$ 1,431,770**
Net sales	**154,208**	242,182	**1,657,442**
Operating income	**80**	15,015	**868**
Net income	**1,018**	7,851	**10,944**
Net income per share (Yen and U.S. dollars)	**9.20**	70.29	**0.09**
Cash dividends per share (Yen and U.S. dollars)	**20.00**	26.00	**0.21**
Capital investment	**2,280**	4,613	**24,516**
R&D expenditures	**6,075**	8,018	**65,297**
At Year-End			
Total assets	**¥ 165,430**	¥ 194,727	**$ 1,778,054**
Working capital	**66,265**	75,087	**712,222**
Net assets	**81,295**	82,810	**873,764**
Number of employees	**5,395**	5,660	
Ratios			
Operating income/net sales	**0.1%**	6.2%	
Net income/net sales	**0.7**	3.2	
Return on shareholders' equity (ROE)	**1.3**	9.6	
Shareholders' equity/total assets	**47.9**	40.9	

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at ¥93.04 = U.S.$1.00, the rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2010.

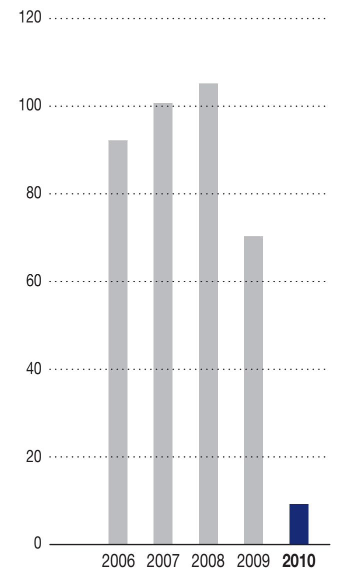
Net sales
(Millions of yen)



Net income
(Millions of yen)



Net income per share
(Yen)



The Daifuku Group consists of its mainstay Logistics Systems business, which focuses on material handling systems and equipment; its Electronics business, engaged in the manufacture of such products as interface boards for measurement controls and industrial computers; and its Other business, which covers car wash machines, bowling alley equipment, wheelchair lifts for care-provider vehicles, and other lifestyle products. In global terms, Daifuku is currently placed in the top echelons of the specialty material handling industry.

In 2009, developing countries such as China helped pull the world out of recession, and developed nations in Europe, along with Japan and the United States, were on track for a gradual recovery. However, in the developed nations, the overall economic prospects remained as uncertain as ever for a variety of reasons: unresolved high unemployment and industrial overcapacity; the high cost of raw materials, especially crude oil and steel; and sovereign debt problems that emerged in southern Europe.

In addition to capital expenditure constraints in the industrial arena, the material handling and logistics industry was forced to confront a harsh business environment with deteriorating order profitability brought about by intensifying competition, such as represented by the rise of rival Asian manufacturers.

With economic recovery forecast to advance at a leaden pace, the Daifuku Group started its new three-year business plan, *Material Handling and Beyond*, in April 2010. Under the new plan, Daifuku will focus on "cultivating new customers, new markets and new businesses" with its sights set on further business expansion. Spotlighting emerging markets notable for their economic development, among them China, we will concentrate on developing the production methods and creating new products and systems that match those emerging markets. We will likewise bolster our aftermarket service business, which embodies the Group's unique strengths.

Daifuku will work to continually enhance corporate governance, respond to environmental issues and bolster safety aspects to create a company that sustains growth far into the future, while endeavoring to enhance corporate value that will in turn benefit the common interests of shareholders.

We respectfully ask for the support of our stakeholders, including shareholders and investors.

Katsumi Takeuchi
Chairman and Co-CEO

K. Takeuchi

Daifuku has formulated "Material Handling and Beyond," its new three-year business plan, and is making concerted efforts to cultivate new markets in domestic growth fields and emerging economies.

Q1

The business environment in fiscal 2009 is understood to have been generally harsh. Firstly, what kind of influences were you operating under and what areas did they affect? Secondly, confronted by such influences, what measures were implemented? Thirdly, what are your views on Daifuku's resulting performance?

A Fiscal 2009, the year ended March 31, 2010, was marked by a substantial decline in sales in Daifuku's mainstay Logistics Systems business segment. We were affected by generally subdued capital expenditures in customer industries, and a major factor behind the decline in sales in the fiscal year under review was the fall in orders for transport systems from the electronics and automotive industries, both of which went into sharp decline from the second half of 2008. As a result, orders plummeted 37.2% to 133,211 million yen and net sales fell 36.3% to 154,208 million yen. However, orders that had bottomed out in the first quarter of the fiscal year under review subsequently showed an upward trend, particularly second-half orders from the electronics industry, with the result that orders in the fourth quarter increased a substantial 67.6% year on year, to 46,390 million yen.

With respect to profits, despite extensive cost cutting, including the load adjustment among factories taking advantage of the consolidation of production bases into the Shiga Works in Japan and other Group initiatives, operating income came to 80 million yen, a year-on-year fall of 99.5%. This result was attributable to deteriorating factory operation levels due to lower net sales and orders and weaker profitability brought about by escalating competition, such as that represented by the rise of rival Asian manufacturers.

Ordinary loss amounted to 135 million yen, a fall of 15,018 million yen in ordinary income from the previous fiscal year, largely due to the posting of interest expenses and foreign exchange losses. The Group recorded net income of 1,018 million yen, a decline of 87.0%, primarily reflecting the reversal of the negative goodwill of Osaka Machinery Works Co., Ltd., which became a wholly owned subsidiary of the Company, and a fall in deferred income taxes.

Q2 Daifuku's new three-year business plan, *Material Handling and Beyond*, has been in effect since April 2010. Please tell us about the plan's strategies and targets.

A Under its previous three-year business plan, *Jump up for 2010*, Daifuku worked toward a consolidated net sales target of 250 billion yen and an operating income margin of 10%. However, the plan drew to a close with those targets yet to be achieved due to the rapid changes in the business environment in the second half of 2008.

Also, compared with other manufacturers of industrial goods, the impact of economic fluctuations tends to hit Daifuku in a particularly delayed manner. Specifically, as could be assumed from order and sales volumes, the number of inquiries fell drastically from the second half of fiscal 2008 through to fiscal 2009. Furthermore, from the profitability standpoint as well, Daifuku was severely impacted by the weaker profitability and deteriorating factory operation levels.

We formulated the *Material Handling and Beyond* plan in the expectation that this business environment would continue for the time being. Specifically, we are targeting consolidated net sales of 220 billion yen and operating income of 11 billion yen for fiscal 2012, and net sales of 250 billion yen and an operating income margin of 10% in fiscal 2014.

Consequently, recognizing the importance of factors that will expand the breadth of our businesses beyond their existing limits, Daifuku will be taking up the challenge of the following five "new" initiatives.

The first is to "enter new markets." At present, the pressures of the global marketplace are pushing manufacturers worldwide, including Japanese companies, to shift their procurement as well as production bases to BRIC countries, which are at present driving the entire world's economy. Reflecting this trend, Daifuku is becoming further involved in China, which it already treats as a priority market.

The second initiative is to "create new products and systems." Besides China, Daifuku will provide products and systems that meet local needs, for example, in India, at prices and with features that will gain customer satisfaction.

Closely related to this initiative is the third initiative, namely, to "develop new production methods." As a Group, we constantly review production to ensure that all is as it should be and work to improve local procurement and production ratios. In line with this policy, we will be hiring and training staff in the field who are capable of operating effectively in the global market.

Our fourth initiative is to "build a new global partnership." Daifuku products and systems are completed and delivered on-site, a service that includes assembly, installation and adjustment work. In such new markets as India and China, we will train people and develop partnerships with entities capable of providing high-quality production, installation and service.

The fifth and final initiative is to "launch new businesses." We aim to further expand our business through such methods as business partnerships and friendly M&As.

As it implements the above five initiatives, Daifuku will, in the coming three years, establish a business foundation that is more robust, so that the Daifuku Group will continue to see sustainable growth far into the future.

Q3 The new plan mentions targeting the creation of new products, markets and businesses. What, specifically, are the fields you have in mind?

A In the case of new products, *eco-friendly* is the key word. In the field of alternative energy, such as solar cells and lithium-ion batteries, on which many companies are focusing, Daifuku is also intent on gaining the top share for material handling systems. The Electronics Business has seen burgeoning demand for solar cell data measuring equipment and display systems, so this, too, is an important growth field.

Agriculture is another one of these new fields. The response to consumer demand for food safety, to deliver products quickly and safely, has fueled demand for new distribution systems.

In the existing field of semiconductors and flat-panel displays, Daifuku is gaining new markets by developing peripheral products and expanding sales.

(Please refer to the Special Feature on page 3 for more details.)

Q4 Are you working to strengthen Daifuku's financial position or improve shareholder return?

A Interest-bearing liabilities stood at 45,295 million yen, a fall of 10,100 million yen from the previous fiscal year. Interest-bearing liabilities expressed as a percentage of net assets (the debt-equity ratio) were thus 0.56. Targeting a debt-equity ratio of less than 0.5, Daifuku will work to further strengthen its financial position.

Daifuku regards the return of profits to shareholders as its most important management task. Regrettably, due to the harsh business environment in fiscal 2009, the decision was taken to reduce the dividend by 6 yen (for an annual dividend of 20 yen), the plan being to pay an annual dividend of 15 yen for the fiscal year ending March 31, 2011. With regard to the payment of dividends from retained surplus, Daifuku has adopted a dividend policy based on performance, with determinations made by taking into account performance as well as the amount of previous dividends. It is also Daifuku policy to appropriate the remaining surplus to internal reserves for future growth.

Q5 In closing, do you have a message that you would like to relay to Daifuku stakeholders?

A The paramount factor affecting the growth of a company is its personnel. Meng Chang Jun's utilization of human resources in ancient China is regarded as ideal. He amassed a large staff—people renowned for their outstanding talents—for example, the ability to sing like a rooster. There is a famous story about one staff member. On one occasion, this particular person, who found himself in a situation where he had to flee, arrived at a checkpoint at night. The gate would not be opened until the morning, but the skilled vocalist began to crow like a rooster, so that real roosters sympathetically joined in, thereby prompting the premature opening of the checkpoint by confused guards and enabling him to shake off his pursuers.

The point I'm making here is that we do not want to hire people with superior academic skill alone. We want to appoint without prejudice people with a variety of skills and techniques, people who others look up to and those who display character. We require brilliant staff with whom we can share business opportunities, and we need Daifuku to remain a vibrant company, thanks to personnel skilled in a variety of fields.

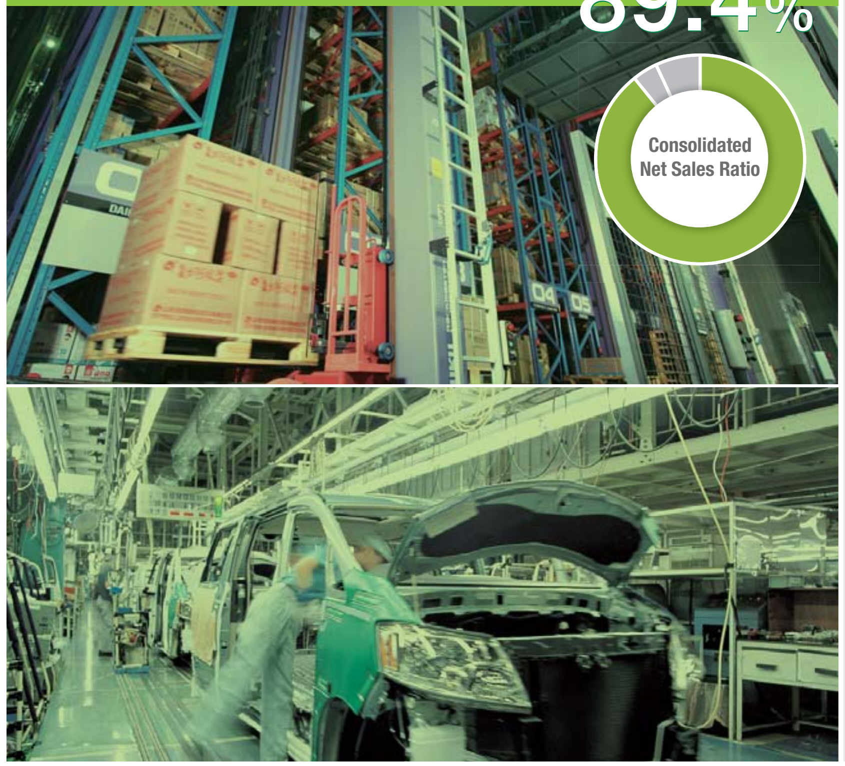
At present, Daifuku is confronting a harsh business environment. However, among the unconventional approaches that this situation demands, I believe there lies the chance for us to globally hire and train personnel. The vibrant corporate group that is Daifuku intends to both improve its profitability by steadily progressing with the initiatives set out in its new three-year business plan and ensure its future development. I would like to take this opportunity to ask all stakeholders for their ongoing understanding and support.

Masaki Hojo
President and Co-CEO

	Results	Overview	Main Products

Logistics Systems

89.4%



Results

(Millions of yen)

Net Sales	137,835
Orders Received	116,392
Operating Income	5,878
Capital Investment	1,614

Overview

The Factory Automation and Distribution Automation (FA&DA) business—which supplies storage, transport, sorting and picking systems for manufacturers and distribution centers—for the most part achieved its goals for large-scale project orders and sales, primarily in the logistics industry in support of food product makers and pharmaceutical wholesalers. Sales for electronics manufacturers also remained solid. Due to contributions from large-scale installations during the long holiday seasons, the aftermarket service business was also favorable. While sales of systems for small- and medium-sized projects were influenced by the struggling economy, inquiries were emerging in projects related to agriculture, solar batteries and lithium-ion batteries.

In both e-Factory Automation (eFA) cleanroom transport and storage systems business for electronics manufacturers and Automotive Factory Automation (AFA) automobile production line systems business, there had been a sharp fall in orders for new projects since the second half of 2008, leading to a decline in sales. Also having an impact was the decline in remodeling work during the May, August and New Year holiday seasons, key periods for the automobile production line aftermarket service business.

However, in the case of orders for the electronics industry, those for systems for flat-panel display (FPD) factories, which were robust in China in the third quarter, picked up in North America and South Korea in the fourth quarter.

In contrast, the Airport Baggage Handling (ABH) business grew at a sluggish pace in North America, given the postponement of large-scale orders to the next fiscal year, although investment plans in baggage inspection lines were robust.

As a result, the Logistics Systems segment recorded orders of 116,392 million yen, down 40.3% from the previous fiscal year, net sales of 137,835 million yen, falling 38.3% and operating income of 5,878 million yen, down 73.3%. Capital investment decreased 24.6% to 1,614 million yen.

Main Products

FA&DA

- Storage systems including AS/RSs
- Conveyor systems and AGVs
- Sorting and picking systems
- Material handling equipment
- Software for distribution center management systems and AS/RS inventory management computers

eFA

- Transport and storage systems for semiconductor production cleanrooms
- Transport and storage systems for flat-panel display production cleanrooms
- Transport and storage systems for other cleanroom factories

AFA

- RAMRUN® electrified monorail systems
- FDS® (Flexible Drive System) chainless conveyor systems
- Other conveyor systems
- Engine testing systems

Electronics

3.9%

Results

(Millions of yen)

Net Sales	6,051
Orders Received	6,392
Operating Loss	(378)
Capital Investment	67

Overview

The Electronics segment focused on the development of new customers and the bolstering of marketing activities to non-manufacturing sectors, such as digital signage, with high growth potential, public transportation systems, medical equipment and store facilities. Sales of photovoltaic data measurement and display systems to such public facilities as educational institutions and public offices were strong, reflecting the promotion of a clean energy policy by the government. In total, however, both orders and sales fell short of breakeven points.

As a result, orders in the Electronics segment were 6,392 million yen, falling 0.1% from the previous fiscal year, and net sales were 6,051 million yen, down 21.5%. Capital investment decreased 81.2% to 67 million yen, with the segment posting an operating loss of 378 million yen.

Main Products

- Industrial computers and interface boards
- LAN-related equipment
- Logistics system controllers
- Distribution monitoring and control systems

Other

6.7%

Results

(Millions of yen)

Net Sales	10,321
Orders Received	10,427
Operating Income	624
Capital Investment	55

Overview

The mainstay car wash machine business almost achieved the sales target set at the beginning of the fiscal year under review, thanks to special demand attributable to lease subsidies for the replacement of car wash machines at service stations. Including those of wax and chemical products, earnings in the service business have increased. The car wash machine business will be focusing on differentiation in this field, as demonstrated by the arrival of the new “esthecoat” coating system.

In addition, sales of wheelchair lifts for care-provider vehicles remained strong, with shipments rising approximately 40% from the same period of the previous fiscal year.

As a result, the Other segment recorded orders of 10,427 million yen, down 2.2% from the previous fiscal year, net sales of 10,321 million yen, decreasing 8.0%, and operating income of 624 million yen, a rise of 14.5%. Capital investment fell 79.7% to 55 million yen.

Main Products

- Car wash machines (gate-type, tunnel-type and one-way drive-through machines)
- Peripheral products for car washes
- Transport and storage systems for medical equipment
- Bowling alley equipment and automatic scoring systems
- Multilevel bicycle parking systems
- Wheelchair lifts for care-provider vehicles

Business Overview by Geographical Area

Japan

The FA&DA business underpinned the Company's business performance, and demand remained particularly strong in the aftermarket service business. Meanwhile, the eFA and AFA businesses continued to be influenced heavily by customer capital investment constraints.

As a result, net sales declined 35.2% from the previous fiscal year, to 109,724 million yen in Japan, and operating income fell 70.5%, to 6,008 million yen.

Outside Japan

Asia In the FA&DA business, orders exceeded projections by a significant margin, thanks to marketing activities focused on leading local food and pharmaceutical manufacturers in China.

Sales in the eFA business declined sharply in Taiwan but exceeded initial projections in South Korea with the contribution of the service business. In China, Daifuku received significant second-half orders for systems for FPD factories, which are naturally expected to contribute to sales and profits in the next fiscal year. These orders are also expected to become a growth engine en route to achieving the targets under the new three-year business plan.

Sales and profits in the AFA business fell substantially in China and Thailand, as Japanese companies postponed their new investment plans.

North America In the FA&DA business, Daifuku America Corporation and Jervis B. Webb Company jointly sought to improve business efficiency, with the two companies achieving such positive results as delivering systems that combine their strengths in solar battery factories. The eFA business steadily carried out remodeling project work. In the AFA business, despite sales of and profits from automobile production line systems for U.S. automakers being significantly down, remodeling projects for Japanese and European automakers contributed to Company performance. With airports placing their investment plans on hold in the weak economy, the ABH business suffered sluggish growth in orders and sales but achieved strong earnings.

Other In Europe, every business faced difficult operating conditions, influenced by the struggling economies. In April 2010, Daifuku reorganized its business bases in Europe, aiming to expand its service business to establish a strong revenue base and to promote installation work with consistent project management.

As a result of the above, net sales outside Japan decreased 38.9% from the previous fiscal year, to 44,483 million yen, while operating income fell 93.5%, to 116 million yen.

■ By Geographical Area

(Millions of yen)

		Outside Japan		
	Japan	North America	Asia	Other
Net sales	109,724	24,914	15,842	3,726
Operating income (loss)	6,008	1,251	(418)	(717)

■ Non-Japan Sales

(Net sales in millions of yen)

	North America	Asia	Other	Total
Non-Japan sales	24,922	41,001	6,555	72,479
Consolidated sales	—	—	—	154,208
Ratio of non-Japan sales to consolidated sales (%)	16.2	26.6	4.3	47.0

Main countries or regions included in each of the above geographical areas:
North America: U.S.A., Canada
Asia: Singapore, Thailand, Taiwan, South Korea and China
Other: United Kingdom, Spain, Sweden, Denmark

1. Changes Starting from Fiscal 2010 (Fiscal Year Ending March 31, 2011)

Daifuku will change its reporting segments from fiscal 2010. These segments, for which financial information separated into the Daifuku Group's constituent units is available, are regularly subjected to review to enable the Board of Directors to decide upon the allocation of management resources and assess performance.

2. Overview of Reporting Segments

In the current fiscal year, the four companies—Daifuku Co., Ltd., Contec Co., Ltd., Jervis B. Webb Company and Daifuku America Corporation—are positioned as the core companies and thus the reporting segments of the Daifuku corporate group. In this annual report, these are reported under the former segment groupings.

(Former segments) Logistics Systems business, Electronics business, Other business

▼

(After change) Daifuku, Contec, Jervis B. Webb, Daifuku America

Fiscal 2009 Performance by Principal Company

(Billions of yen)

	Net sales	Operating income (loss)	Ordinary income (loss)	Net income (loss)
Daifuku	91.8	(1.1)	0.6	0.8
Contec	5.9	(0.3)	(0.3)	(0.1)
Jervis B. Webb	15.7	0.4	0.3	0.2
Daifuku America	8.3	0.6	0.6	0.5
Other	28.8	0.3	0.3	0.2
Total	154.2	0.08	(0.1)	1.0

Basic Stance/Principal Initiatives

- Focus on improving corporate governance with a view to building a robust business structure in keeping with two key aspects of our management philosophy: "contribute to the development of industry" and "healthy, growth-driven management"
- For rapid management decision-making, facilitate vitality at Board of Directors' meetings where each board member is encouraged to use judgment and express opinions
- Secure management oversight functions with a corporate governance system based on a framework of management oversight enhanced and strengthened through the Board of Directors and through corporate auditors collaborating closely with the Board of Directors
- So that fair and impartial consideration is given to the protection of general shareholders in management decision-making, the Tokyo Stock Exchange and Osaka Securities Exchange have been notified, as specified in their regulations, that two of the outside corporate auditors are independent officers
- Further upgrade internal control and risk management systems by appointing management supervision (CRO) and financial supervision (CFO)

Board of Directors' Composition, Decision-Making and Execution System

Daifuku's Board of Directors currently consists of 17 directors and is presided over by the president, who also serves as co-CEO jointly with the chairman of the board. Daylong Board of Directors' regular meetings are held on a monthly basis to make decisions on fundamental management matters, with extraordinary meetings convened when deemed necessary (on four occasions during the fiscal year under review). Daifuku endeavors to facilitate vitality at Board of Directors' meetings by having all directors use their own judgment to express opinions. Furthermore, for important management matters, a body made up of all representative directors, the Management Advisory Committee, is in place to confer and make recommendations to the Board of Directors. With corporate auditors in attendance, the committee also seeks the opinions of relevant directors and external specialists on an as needed basis. Besides being convened by the president as he sees fit, the Management Advisory Committee meets regularly, fitting in with scheduled Board of Directors' meetings, to discuss information about the status of all Daifuku Group businesses. In the year ended March 31, 2010, the Management Advisory Committee held three extraordinary meetings and 12 regularly scheduled meetings.

As the directors' term of office is one year, directors are required to account for their actions each year at the General Meeting of Shareholders. Currently, Daifuku has no outside directors on its Board. However, it is considered that the management oversight system functions sufficiently by means of an enhanced and strengthened corporate governance system based on the management oversight framework of corporate auditors collaborating closely with the Board of Directors, which is itself made up of internal directors well versed in Daifuku's business content, manufacturing and markets.

Corporate Auditors and Audit System

Daifuku maintains a Board of Corporate Auditors made up of five corporate auditors, three of whom are elected from outside the Company. The Board of Corporate Auditors met on eight occasions during the fiscal year under review. Based on an audit plan formulated at the start of the fiscal year, corporate auditors, who attend and have a voice in key meetings, including Board of Directors' meetings, conduct their audits by receiving reports on directors' execution of duties, reviewing financial reporting documents, and monitoring and visiting various operating divisions, including factories and sales offices, as well as Group companies in and outside Japan. Corporate auditors also monitor the status of the Company's internal control systems. While carrying out business execution audits in collaboration with an internal audit entity (Internal Audit Department), mutually exchanging information at monthly auditors' meetings—made up of corporate auditors, the Internal Audit Department and the BCP (Business Continuity Plan) Promotion Division—raises audit efficacy. In addition, accounting auditors raise mutual cooperation by accompanying corporate auditors on inventory inspections and on-site audits, describing audit plans, exchanging information and opinions on audit result reports. Corporate auditors also participated 39 times in the fiscal year under review in the tests and conducted by the accounting auditor to assess the status of internal control system upgrades and operational status, and assessed the effectiveness of the tests.

Boasting a wealth of experience in fields that include the law, press reporting as well as science and technology, the three outside corporate auditors offer a wide range of insight, fulfilling their audit role from various perspectives by, for example, exchanging opinions with full-time corporate auditors at Board of Corporate Auditors' meetings, attending the monthly Board of Directors' meetings and gathering information. Based on their partially revised regulations, the Tokyo Stock Exchange and Osaka Securities Exchange have been notified that two of the outside corporate auditors are independent officers.

As Daifuku's independent accounting auditor, PricewaterhouseCoopers Aarata, a PwC member firm, currently performs accounting and internal control audits.

Internal Control System Upgrades

Daifuku has set up and maintains a robust internal control system to maximize the effectiveness of its corporate governance. Recognizing that the system heightens its corporate trustworthiness and the efficiency of its operations, the Company focuses on ensuring the reliability of its compliance, risk management, asset conservation and financial reporting. In addition to having established a Compliance Committee chaired by the president and formulated its Corporate Code of Conduct, Daifuku conducts activities to ensure legal compliance, fairness and high ethical standards in its corporate activities.

The Company upgraded its general internal control system by a Board of Directors' resolution when the Corporation Law came into effect in 2006. Following subsequent reviews, the current system is as shown in the chart at the end of this section.

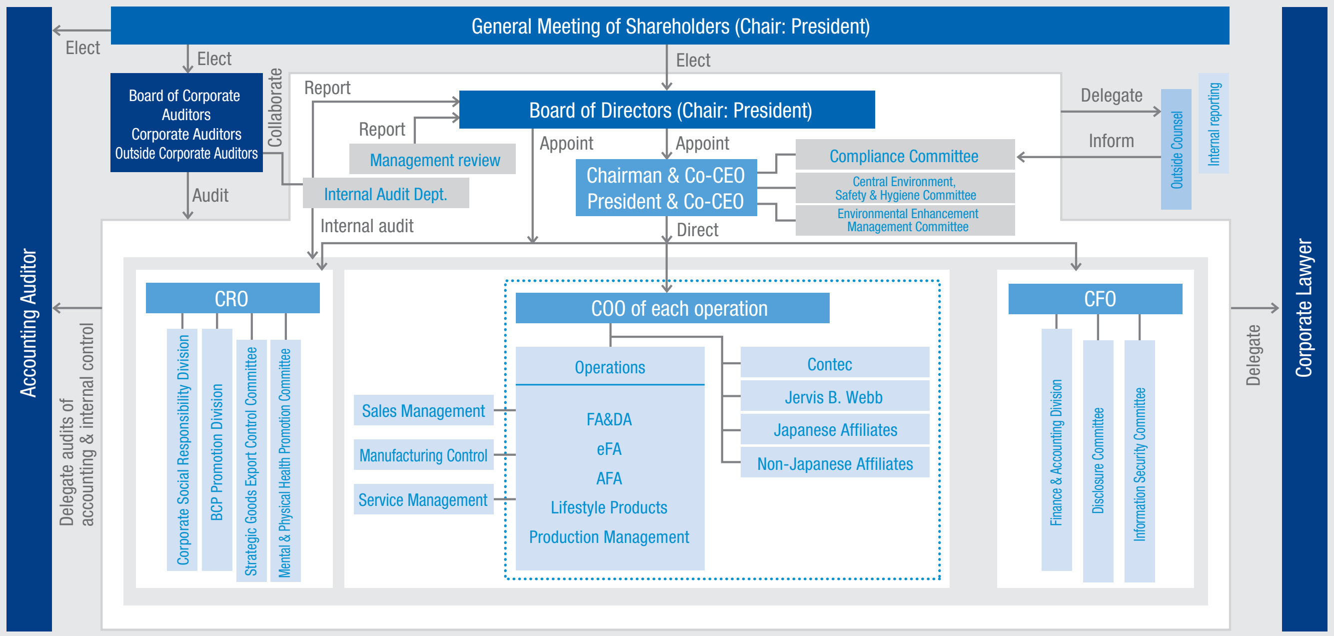
In the April 2010 review, the BCP Promotion Division, which has a Companywide risk management function, was placed under the CRO (Chief Risk Officer), and on the basis of strengthened collaboration with the CSR (Corporate Social Responsibility) Division, it took steps toward securing an effective business continuity plan. At the same time, to further enhance the establishment of an internal control system that covers financial reporting, including unified compliance with International Financial Reporting Standards, the post of CFO (Chief Financial Officer) was newly created, while under this authority were integrated the Finance and Accounting Division, as well as the Disclosure and Information Security committees. The International Management function, which administrated such information as financial information from global affiliates and branches, was succeeded by the CFO.

By means of this internal control system applied to Daifuku, Daifuku endeavors to raise and the effectiveness of its corporate governance.

Daifuku's Preventative Measures against Hostile Large-Scale Acquisitions of Company Shares

In June 2009, Daifuku conducted a review of its preventative measures against large-scale acquisitions of Company shares. Having been introduced in 2006, the measures' three-year period of effectiveness was about to expire. The review was undertaken from a variety of aspects, including the business environment and trends. The existing plan with a few revisions received approval at the General Meeting of Shareholders held in June 2009, the measures' limit being once again set at three years. The content of the measures remained essentially the same. In the event of an acquisition of 20% or more of the Company's shares, which could erode Daifuku's corporate value, Daifuku shall request that the acquirer(s) submit the purpose, contents and other related information concerning the acquisition proposal. Upon submission of this information, a Special Committee made up of outside corporate auditors and outside experts shall judge whether such an acquisition would be detrimental to Daifuku's corporate value and the common interests of Daifuku's shareholders and offer its advice to the Board of Directors.

■ Coporate Governance System Chart (As of April 2010)



Main Initiatives

- Established Environmental Enhancement Management Committee that formulates and promotes environmental management strategy
- Environmental Initiatives through Product Development
  (1) Launched tunnel-type car wash machines with water-saving features fitted as standard
  (2) Developed automatic guided vehicle (AGV) designed to reduce environmental impact
- Established Anzen-Taikan Dojo (first-hand experience safety training facilities), aimed at eradicating industrial accidents
- Development of the Working Environment
  (1) Promoted mental health care
  (2) Chinese subsidiary became first global subsidiary to obtain OHSAS 18001 occupational health and safety management certification
- Prepared precautionary stockpiles for infectious disease outbreaks and natural disasters
- Nurturing Personnel: World Skills Competition held

Through Corporate Activities

Trusted by stakeholders in all aspects of its corporate activities, Daifuku undertakes a variety of CSR activities, having formulated its Corporate Code of Conduct to contribute widely to society.

Environmental Initiatives: Conservation Activities

In the course of its production activities, Daifuku uses a wide variety of chemicals, which the Company independently and painstakingly controls in compliance with the relevant regulations and by working to prevent adverse environmental impact.

With regard to CO_2 emissions, the main cause of global warming, Daifuku keeps a close watch on the real environmental burden such emissions pose, taking daily action to achieve its own reduction targets and those set for Japan in the Kyoto Protocol. In fiscal 2009, the Company was able to reduce total CO_2 emissions 41.5% against a fiscal 2006 target of 10% and achieved a 12.9% reduction compared with net sales per unit.

In June 2010, Daifuku completed installation of a photovoltaic system on top of the Hini Arata Kan full-scale exhibition center located within the Shiga Works. It is envisaged that this move will reduce CO_2 emissions by approximately 110 tons per year.

Water contamination is a serious problem that can affect soil, agricultural products, living environments and various other areas.

Photovoltaic system

Accordingly, efforts are made to control and reduce drainage from works, taking meticulous care, while, of course, observing relevant laws and regulations. In fiscal 2009, the Company was able to reduce total Companywide water usage by 47.5% compared with fiscal 2006, resulting in a 21.8% reduction compared with net sales per unit.

Environmental Initiatives through Product Development

In June 2009, Daifuku launched water-saving, gate-type car wash machines and has been working to develop its car wash machine lineup. In the fall of 2009, sales commenced of tunnel-type machines that use 40% less water than used by conventional models. Operating one of these machines, which are capable of handling a maximum of 60 car washes an hour (4,000 a month) reduces water consumption by 1,500 m^3 a year.

In addition, Daifuku launched its FAC Series in response to demand for overhauls of automatic guided vehicles delivered in the past. Besides enabling waste reduction by making effective use of existing equipment, such as magnet guides and rechargers, the new FAC Series reduces electric power consumption by 10% compared with existing models by being lighter in weight and featuring a power-saving mode when stationary.

Environmental Safety Initiatives: Safety Promotion Activities

In April 2010, the Company established the Environmental Enhancement Management Committee, which reports directly to the CEO. Formulating and promoting environmental management strategy, the committee determines Groupwide guidelines related to energy reduction, saving natural resources, the elimination of harmful substances and the supply of environmentally friendly products in compliance with environmental regulations and the relevant laws.

Meanwhile, as safety is a paramount issue, Daifuku changed its Central Environment, Safety and Hygiene Committee, under the direct control of the CEO, to address the issue of eliminating accidents. In June 2010, Daifuku's Anzen-Taikan Dojo facilities were opened at an old works site on the premises of its Osaka headquarters. At the dojo, the hazards associated with, for example, automated warehouse installation work can be experienced. The aim is to impress on trainees the importance of safety by simulating such occupational hazards as a fall, an electric shock and being caught in operating equipment. Daifuku will expand the safety training of those directly involved in installation work and new employees to help them ensure installation safety.

Anzen-Taikan Dojo

Business Continuity Plan

Daifuku is very much aware that its core material handling business represents one aspect of infrastructure that provides support for society. The Company also realizes that its contribution to its customers includes the need to maintain a business system capable of remaining in operation even when a natural disaster, such as a major earthquake, has occurred.

Thus far, Business Continuity Plan (BCP) measures have been completed based on the assumption that an earthquake has struck with an intensity of a lower 6 on the Japanese scale. The BCP sets standards for establishing a disaster response headquarters and recovery time objectives, making preparations so that recovery can be achieved quickly in the event of being involved in a disaster. For the first stage, at all its works as well as sales and service offices in Japan, the Company has completed the precautionary stockpiling of food and drinking water, along with masks to protect against infectious disease outbreaks, in preparation for natural disasters.

Development of the Working Environment

As stated as part of Daifuku's management philosophy—to create a corporate culture that respects the personality and individuality of each employee—employees are duly recognized as forming the basis of management. Going to great lengths to develop working environments that motivate and in which employees can work with vitality, Daifuku believes that if individuals can raise their abilities and work effectively as an organized group, they will earn the trust of society, customers and all stakeholders.

In recent years, there have been increasing numbers of workers in society experiencing depression and other mental disorders. Besides setting up the Mental & Physical Health Promotion Committee and promoting mental health measures at the workplace, the Daifuku Group has implemented care-giving by employees themselves as well as by managers and supervisors at training sessions. These sessions are given according to position within the company, from new hires and junior personnel to managers and supervisors.

In April 2010, from the perspective of lending extra support to harmonizing both elements of the work-life balance, Daifuku revised its personnel system to incorporate, for example, an extension to the duration of childcare leave.

Daifuku already holds OHSAS 18001 certification for occupational health and safety management systems at its four main sites in Japan. In addition, Chinese subsidiary Jiangsu Daifuku Rixin Automation Co., Ltd. underwent the extensive review process and in February 2010 became the first Daifuku Group subsidiary outside Japan to obtain certification.

Nurturing Personnel

Targeting a ratio of non-Japan sales to net sales of 50% (47% in fiscal 2009), the Daifuku Group maintains a focus on training system enhancements to offer customers products, systems and services that are of the same high quality anywhere in the world. To nurture at an early stage candidates for overseas duties who possess international business skills, the Company implements the Global Business Trainee Program under which they receive one year of special training.

In such front-line skills as welding and assembly alone, a total of more than 4,000 people has attended courses to improve. At the World Skills Competition, which has been positioned as an opportunity to verify global uniform quality, a total of 93 Daifuku manufacturing personnel, including 30 people from 12 bases in six countries, pitted their skills against each other.

The World Skills Competition

For more details on Daifuku's corporate social responsibility (CSR) activities, please refer to the English-language version of Daifuku's *Corporate Social Responsibility Report*, which is available on our website at:

www.daifuku.com/csr/

REPRESENTATIVE DIRECTORS

Front row, from left

Katsumi Takeuchi
Chairman and Co-CEO

Masaki Hojo
President and Co-CEO
COO of AFA Operations

Back row, from left

Yutaka Hirai
Executive Vice President
COO of eFA Operations

Fumio Kobayashi
Executive Vice President
COO of FA&DA Operations
COO of Sales and Marketing

Seiki Kakinuma
Senior Managing Director
COO and General Manager of LSP Operations

Takahiro Taniguchi
Senior Managing Director
COO of Production Control
COO of Service Control
General Manager of Production Management Division
Chief Officer of Shiga Works

MANAGING DIRECTORS/DIRECTORS

Front row, from left

Hidenori Iwamoto
Director
General Manager of Sales Division, AFA Operations

Yoshiyuki Nakashima
Director
General Manager of Corporate Social Responsibility Division

Naoki Tahara
Director
General Manager of Sales Division, FA&DA Operations

Seiji Sato
Director
General Manager of Semiconductor Division, eFA Operations

Back row, from left

Susumu Moriya
Managing Director
General Manager of eFA Operations

Akio Tanaka
Managing Director
General Manager of FA&DA Operations

Masayoshi Inoue
Managing Director
CRO
Chief Officer of Komaki Works

Mikio Inohara
Managing Director
CFO

Takashi Hiramoto
Managing Director
COO of ABH Operations
General Manager of Production, FA&DA Operations

Hiroyoshi Takeda
Managing Director
General Manager of AFA Operations

Katsutoshi Fujiki
Managing Director
COO of China's Affiliate Management

CORPORATE AUDITORS

Front row, from left

Harumichi Uchida
Outside Corporate Auditor

Isao Kitamoto
Outside Corporate Auditor
Independent Officer

Hiroyuki Torii
Outside Corporate Auditor
Independent Officer

Back row, from left

Setsuo Idehara
Corporate Auditor

Hiroshi Fujishima
Corporate Auditor